Centri

Coronavirus Update

SHARE

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Internal Control Implications on Going Concern Analysis

In accordance with ASC 205-40, at each annual and interim reporting period, management must evaluate whether there are conditions and events (that raise substantial doubt about an entity's ability to continue as a going concern within one year after the date the financial statements are issued or available to be issued (when applicable).

Management needs to evaluate whether it has already established processes and internal controls to perform the going concern evaluation and if it would be sufficient to address the risks posed by the pandemic and the new normal economic environment. Management will likely need to change its current processes and controls or implement new processes and controls to account for the impact, which could vary greatly by industry, as the COVID-19 crisis is a unique and unprecedented event. It may be necessary for management to maintain multiple 12-month rolling cash flow projections reflecting several different scenarios.

For example, management will need to evaluate whether its current sources of information can appropriately identify conditions for its industry (e.g., critical supply shortages, ability to capture critical data remotely, cybersecurity for a remote workforce, reduction in demand from significant customers, etc.) would provide a level of precision to predict the economic impact on its terms. At times, if management does not have the necessary subject matter expertise internally, they can seek out to third-party consultants or other industry experts that could assist in performing appropriate due diligence. The going concern standard requires management to make a reasonable effort to identify these conditions and events. Management's procedures and internal controls will need to demonstrate reasonable efforts it will undertake and document considerations, assumptions, and rationale.

Some additional going concern considerations during the cash forecast process should include delay in receivables collections, potential reduction in force, impact on sales, increased expenses on tools to support employees working from home, etc.

The above changes are likely to bring in newer internal control considerations:

1) Due diligence over additional sources of information or use of third-party consultants
2) Review of additional inputs internally within the Company – there may be revisions to budgets and sales forecasts for the Company, in addition to cost adjustment measures. This could require additional discussions with other department heads, which normally may not occur.

3) Review every quarter any changes in assumptions or facts as the economy opens back up.

All significant elements of management's evaluation of the going concern assessment, including the reviews and approval thereof, should also be subject to the entity's control environment.

Management's processes and controls should also address the risk that the going concern assessment could be based on incomplete or inaccurate information about conditions and events that could raise substantial doubt. In the current COVID-19 environment, the going concern evaluation could be a significant undertaking for management and given the rate of change in these factors needs to be updated frequently up to and including the date of issuance if applicable.

Centri's Risk Advisory Services team can help identify risks keeping in mind the current state of your organization, industry, and competitive landscape, providing advisory solutions to manage risks effectively. For more information, please reach out to our RAS experts to learn how we can help. You can find our full insight here on *COVID-19 Impacts on Going Concern Assessments.*

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